

**GOWRIE MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF GOWRIE**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

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Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Debra Tvrdik	Trustee	July, 2007
Bruce Towne	Trustee	July, 2008
Dennis Barnum	Trustee	July, 2004
Bob Schill	Trustee	July, 2005
Brad Lane	Trustee	July, 2006
Charles Angstrom	Public Works Director	Indefinite
Patrice Klingson	Secretary	Indefinite
Eric Eide	Attorney	Indefinite

Independent Auditor's Report

To the Board of Trustees of
Gowrie Municipal Utilities
Gowrie, Iowa

We have audited the accompanying financial statement of the business type activities of each major fund and the aggregate remaining fund information of Gowrie Municipal Utilities, a component unit of the City of Gowrie, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the Utilities' basic financial statement listed in the table of contents. This financial statement is the responsibility of the Utilities' management. Our responsibility is to express opinions on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, this financial statement presents only the component unit, Gowrie Municipal Utilities, and is not intended to present fairly the cash transactions of the funds of the City of Gowrie.

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the business type activities of each major fund and the aggregate remaining fund information of Gowrie Municipal Utilities, a component unit of the City of Gowrie, as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 7, during the year ended June 30, 2004, the Utility adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated July 30, 2004 on our consideration of Gowrie Municipal Utilities’ internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 15 through 16 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statement that collectively comprise Gowrie Municipal Utilities’ basic financial statement. Other supplementary information included in Schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CORNWELL & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

July 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Gowrie Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

Because the Utilities is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Utilities' financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Operating receipts of the Utilities' business type activities increased 8.9%, or approximately \$90,394 from fiscal 2003 to fiscal 2004.
- Operating disbursements increased 7.7%, or approximately \$66,681 in fiscal 2004 from fiscal 2003.
- The Utilities' total cash basis net assets increased 14%, or approximately \$60,000, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The Proprietary Fund Financial Statements report the Utilities' operations by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides detailed information about the nonmajor proprietary funds and other detailed information.

Basis of Accounting

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this accrual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Proprietary Fund Financial Statements

Proprietary funds account for the Utilities' enterprise funds. Enterprise funds are used to report business type activities. Business type activities are financed primarily by user charges. The Utilities maintains five enterprise funds to provide separate information for the water, sewer, electric, garbage and meter deposit departments. The electric and water funds are considered to be major funds of the Utilities.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

FINANCIAL ANALYSIS COMPARISON

Changes in Cash Basis Fund Balances of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	<u>2004</u>	<u>2003</u>
Receipts:		
Program receipts:		
Charges for service	\$ 979	930
General receipts:		
Unrestricted interest on investments	4	7
Loan proceeds	250	150
Other general receipts	<u>121</u>	<u>76</u>
Total receipts	<u>1,354</u>	<u>1,163</u>
Disbursements	<u>1,294</u>	<u>1,091</u>
Increase in cash balance	60	72
Cash basis fund balance beginning of year	<u>438</u>	<u>365</u>
Cash basis fund balances end of year	<u>\$ 498</u>	<u>437</u>

Total business type activities receipts for the fiscal year were \$1.354 million compared to \$1.163 million last year. This increase was due primarily to the receipt of \$250,000 revenue note proceeds. The cash balance increased by approximately \$60,000 from the prior year. Total disbursements for the fiscal year increased by 18.6% to a total of \$1.294 million.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$43,063 to \$128,435, due primarily to a water plant project.

- The Electric Fund cash balance increased by \$112,083 to \$325,206, due primarily to the increase in the sale of electricity receipts and an increase in miscellaneous receipts. The miscellaneous receipts included a patronage dividend and proceeds from the sale of a spec home.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City of Gowrie amended its budget. The amendment was approved on May 24, 2004 and resulted in an increase in operating disbursements of approximately \$515,000 in the business type activities of the Utilities. The amendment also increased receipts by \$250,000 for loan proceeds of the Utilities.

DEBT ADMINISTRATION

At June 30, 2004, the Utilities had \$363,981 in loans and notes compared to \$150,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2004	2003
Loan payable	\$ 114	150
Revenue note	250	0
	\$ 364	150
	=====	=====

Debt increased as a result of obtaining an electric revenue note for electric improvements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Gowrie Municipal Utilities' considered many factors when setting the fiscal year 2005 budget and fees that will be charged for services. Increases in water treatment plant improvements account for the majority of the increase.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gowrie Municipal Utilities, 1102 Main Street, Gowrie, Iowa 50543.

Basic Financial Statements

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Exhibit A

Statement of Cash Receipts, Disbursements, and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds			
	<u>Electric</u>	<u>Water</u>	<u>Other Nonmajor Proprietary Funds</u>	<u>Total</u>
Operating receipts:				
Use of money and property	\$ -	1,950	-	1,950
Charges for service	711,960	132,281	135,246	979,487
Miscellaneous	46,947	692	3,442	51,081
Total operating receipts	<u>758,907</u>	<u>134,923</u>	<u>138,688</u>	<u>1,032,518</u>
Operating disbursements:				
Business type activities	<u>711,270</u>	<u>90,481</u>	<u>127,353</u>	<u>929,104</u>
Total operating disbursements	<u>711,270</u>	<u>90,481</u>	<u>127,353</u>	<u>929,104</u>
Excess of operating receipts over operating disbursements	<u>47,637</u>	<u>44,442</u>	<u>11,335</u>	<u>103,414</u>
Non-operating receipts (disbursements):				
Interest on investments	2,041	2,018	442	4,501
Miscellaneous	54,561	12,098	541	67,200
Revenue note proceeds	250,000	-	-	250,000
Capital-outlay	(242,037)	(61,940)	-	(303,977)
Debt service	<u>(444)</u>	<u>(39,781)</u>	<u>(21,000)</u>	<u>(61,225)</u>
Total non-operating receipts (disbursements)	<u>64,121</u>	<u>(87,605)</u>	<u>(20,017)</u>	<u>(43,501)</u>
Excess (deficiency) of receipts over (under) disbursements	111,758	(43,163)	(8,682)	59,913
Operating transfers in (out)	<u>325</u>	<u>100</u>	<u>(425)</u>	<u>-</u>
Net change in cash balances	112,083	(43,063)	(9,107)	59,913
Cash balances beginning of year	<u>213,123</u>	<u>171,498</u>	<u>53,187</u>	<u>437,808</u>
Cash balances end of year	<u>\$ 325,206</u>	<u>128,435</u>	<u>44,080</u>	<u>497,721</u>
Cash Basis Fund Balances				
Reserved for:				
Debt service	5,700	80,889	-	86,589
Improvements	-	83,285	-	83,285
Unreserved	<u>319,506</u>	<u>(35,739)</u>	<u>44,080</u>	<u>327,847</u>
Total cash basis fund balances	<u>\$ 325,206</u>	<u>128,435</u>	<u>44,080</u>	<u>497,721</u>

See notes to financial statements.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Gowrie Municipal Utilities is a component unit of the City of Gowrie. These financial statements present the Enterprise funds of Gowrie Municipal Utilities only. Gowrie Municipal Utilities is legally separate from the City, but is financially accountable to the City. The Municipal Utilities is governed by a five-member board appointed by the City Council and the Municipal Utilities' operating budget is subject to the approval of the City Council. The Utilities provide water, electric, sewer and garbage services to the citizens of the City of Gowrie.

A. Reporting Entity

For financial reporting purposes, Gowrie Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. Gowrie Municipal Utilities has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Municipal Utilities are such that exclusion would cause the Municipal Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Municipal Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utilities. The Utilities has no component units which meet the Government Accounting Standards Board criteria.

B. Basis of Presentation

Fund Financial Statements – Separate financial statements are provided for the proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining proprietary funds are aggregated and reported as nonmajor proprietary funds.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Notes to Financial Statements

June 30, 2004

The Utilities reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the Utilities' electric system.

The Water Fund accounts for the operation and maintenance of the Utilities' water system.

C. Measurement Focus and Basis of Accounting

The Gowrie Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in the business type activities function.

(2) Cash

The Utilities' deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Gowrie Municipal Utilities
A Component of the City of Gowrie

Notes to Financial Statements

June 30, 2004

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utilities Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments at June 30, 2004. During the year, the Utilities deposited excess funds in certificates of deposit.

(3) Loans and Notes Payable

Annual debt service requirements to maturity for loans and revenue notes payable are as follows:

Year Ending <u>June 30,</u>	<u>Loans</u>		<u>Revenue Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 37,004	2,777	19,135	11,180	56,139	13,957
2006	37,991	1,790	22,025	8,290	60,016	10,080
2007	38,986	776	22,843	7,473	61,829	8,249
2008	---	---	23,691	6,625	23,691	6,625
2009	---	---	24,570	5,746	24,570	5,746
2010-2014	---	---	<u>137,736</u>	<u>14,351</u>	<u>137,736</u>	<u>14,351</u>
Total	\$ <u>113,981</u>	<u>5,343</u>	<u>250,000</u>	<u>53,665</u>	<u>363,981</u>	<u>59,008</u>

On April 29, 2003 a loan agreement was entered into between Security Savings Bank and Gowrie Municipal Utilities. The loan was for \$150,000 with a fixed interest rate of 2.65% and maturity date of May 1, 2007. The loan calls for eight semi-annual payments of \$19,890 beginning November 1, 2003. The loan is secured by a commercial security agreement dated April 29, 2003. Proceeds from this loan were used to redeem the Water Revenue Capital Loan Notes, Series 1991. The notes were redeemed on May 1, 2003 at par value of \$150,000 plus accrued interest.

Gowrie Municipal Utilities
A Component of the City of Gowrie

Notes to Financial Statements

June 30, 2004

On March 9, 2004 an electric revenue note was entered into between Security Savings Bank

Gowrie Municipal Utilities. The note was for \$250,000 with a fixed interest rate of 3.65% and maturity date of June 1, 2014. The note calls for twenty semi-annual payments of \$15,158 beginning December 1, 2004. The note is secured by a commercial security agreement dated March 9, 2004. Proceeds from this note were used to finance electrical improvements. The note resolution established an "Electric Revenue Fund" to be set aside and to be used in maintaining and operating the electric system and after payment of the operating expenses be used to pay the principal and interest on the note.

(4) Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utilities' contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$12,612, \$11,579, and \$10,115 respectively, equal to the required contributions for each year.

(5) Compensated Absences

Utilities employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours accumulate and are paid only when used. These accumulations are not recognized as disbursements by the Utilities until used or paid. The Utilities' approximate liability for earned vacation hours payable to employees at June 30, 2004, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 5,217
	=====

This liability has been computed based on rates of pay in effect at June 30, 2004.

Gowrie Municipal Utilities
A Component of the City of Gowrie

Note to Financial Statements

June 30, 2004

(6) Risk Management

Gowrie Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the Utilities’ financial activities. The financial statements now include fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

(8) Subsequent Events

In July 2004 the Utilities issued a \$695,000 water revenue bond through the state revolving fund. Proceeds from this bond will be used to finance water treatment plant improvements.

Gowrie Municipal Utilities
A Component of the City of Gowrie

Note to Financial Statements

June 30, 2004

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Electric	Garbage	\$ 325
Water	Garbage	\$ 100
Sewer	Garbage	<u>\$ 75</u>
Total		<u>\$ 500</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

Required Supplementary Information

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Proprietary Funds <u>Actual</u>	<u>Budgeted Amounts</u>		Final to Actual <u>Variance</u>
		<u>Original</u>	<u>Final</u>	
Receipts:				
Use of money and property	\$ 6,451	3,050	3,050	3,401
Charges for service	979,487	909,800	909,800	69,687
Miscellaneous	118,281	53,300	53,300	64,981
Total receipts	<u>1,104,219</u>	<u>966,150</u>	<u>966,150</u>	<u>138,069</u>
Disbursements:				
Business type activities	<u>1,294,306</u>	<u>966,147</u>	<u>1,481,147</u>	<u>186,841</u>
Excess (deficiency) of receipts (under) disbursements	(190,087)	3	(514,997)	324,910
Other financing sources, net	<u>250,000</u>	<u>-</u>	<u>250,000</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	59,913	3	(264,997)	324,910
Balances beginning of year	<u>437,808</u>	<u>(323,433)</u>	<u>(323,433)</u>	<u>761,241</u>
Balance end of year	<u>\$ 497,721</u>	<u>(323,430)</u>	<u>(588,430)</u>	<u>1,086,151</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council of the City of Gowrie annually adopts a budget on the cash basis following required public notice and hearing for all funds. Gowrie Municipal Utilities' budget is part of the City of Gowrie's budget. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Gowrie Municipal Utilities' disbursements are under the business type activities function. During the year, a budget amendment increased budgeted disbursements of the Utilities by \$515,000. The budget amendments are reflected in the final budgeted amounts. During the year ended June 30, 2004, Utility disbursements did not exceed the amounts budgeted.

Other Supplementary Information

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 1

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds			
	<u>Sewer</u>	<u>Garbage</u>	<u>Meter Deposits</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 78,926	56,320	-	135,246
Miscellaneous	-	-	3,442	3,442
Total operating receipts	<u>78,926</u>	<u>56,320</u>	<u>3,442</u>	<u>138,688</u>
Operating disbursements:				
Business type activities	<u>69,043</u>	<u>53,844</u>	<u>4,466</u>	<u>127,353</u>
Total operating disbursements	<u>69,043</u>	<u>53,844</u>	<u>4,466</u>	<u>127,353</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>9,883</u>	<u>2,476</u>	<u>(1,024)</u>	<u>11,335</u>
Non-operating receipts (disbursements):				
Interest on investments	404	25	13	442
Miscellaneous	541	-	-	541
Debt service	<u>(21,000)</u>	<u>-</u>	<u>-</u>	<u>(21,000)</u>
Total non-operating receipts (disbursements)	<u>(20,055)</u>	<u>25</u>	<u>13</u>	<u>(20,017)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(10,172)</u>	<u>2,501</u>	<u>(1,011)</u>	<u>(8,682)</u>
Operating transfers in (out)	<u>75</u>	<u>(500)</u>	<u>-</u>	<u>(425)</u>
Net change in cash balances	<u>(10,097)</u>	<u>2,001</u>	<u>(1,011)</u>	<u>(9,107)</u>
Cash balances beginning of year	<u>37,151</u>	<u>9,712</u>	<u>6,324</u>	<u>53,187</u>
Cash balances end of year	<u>\$ 27,054</u>	<u>11,713</u>	<u>5,313</u>	<u>44,080</u>
Cash Basis Fund Balances				
Unreserved:				
Enterprise funds	<u>27,054</u>	<u>11,713</u>	<u>5,313</u>	<u>44,080</u>
Total cash basis fund balances	<u>\$ 27,054</u>	<u>11,713</u>	<u>5,313</u>	<u>44,080</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 2

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Fund - Electric Department

As of and for the year ended June 30, 2004

	<u>Electric Revenue</u>	<u>Electric Sinking</u>	<u>Total</u>
Operating receipts:			
Charges for service:			
Sale of electricity	\$ 711,483	-	711,483
Reconnection fees	477	-	477
	<u>711,960</u>	<u>-</u>	<u>711,960</u>
Miscellaneous:			
Merchandise and labor sales	11,322	-	11,322
Sales tax collected	35,625	-	35,625
	<u>46,947</u>	<u>-</u>	<u>46,947</u>
Total operating receipts	<u>758,907</u>	<u>-</u>	<u>758,907</u>
Operating disbursements:			
Business type activities:			
Personal services:			
Salaries and wages	159,310	-	159,310
FICA - Employer's portion	12,209	-	12,209
IPERS - Employer's portion	9,148	-	9,148
Group insurance	35,667	-	35,667
Uniforms	427	-	427
Workers compensation	5,233	-	5,233
	<u>221,994</u>	<u>-</u>	<u>221,994</u>
Services and commodities:			
Advertising and legal publication	2,244	-	2,244
Consulting and legal	3,752	-	3,752
Power purchased	302,643	-	302,643
General insurance	13,090	-	13,090
Miscellaneous contractual work	7,148	-	7,148
Postage and shipping	1,935	-	1,935
Sales and property tax remitted	55,335	-	55,335
Telephone	1,626	-	1,626
Travel and conference	519	-	519
Utility service	13,335	-	13,335
Dues and membership	4,999	-	4,999
Buildings and maintenance supplies	2,409	-	2,409
Minor equipment	6,331	-	6,331
Motor vehicle supplies and maintenance	3,127	-	3,127
Office supplies	7,074	-	7,074
Operating supplies and materials	40,598	-	40,598

(continued)

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 2

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Fund - Electric Department

As of and for the year ended June 30, 2004

	Electric <u>Revenue</u>	Electric <u>Sinking</u>	<u>Total</u>
Distribution supplies and material	23,111	-	23,111
	<u>489,276</u>	-	<u>489,276</u>
Total operating disbursements	<u>711,270</u>	-	<u>711,270</u>
Excess of operating receipts over operating disbursements	<u>47,637</u>	-	<u>47,637</u>
Non-operating receipts (disbursements):			
Interest on investments	2,041	-	2,041
Miscellaneous	54,561	-	54,561
Revenue note proceeds	250,000	-	250,000
Capital outlay:			
Substation project	(148,153)	-	(148,153)
Fuel tanks project	(93,884)	-	(93,884)
Debt service:			
Economic development	(444)	-	(444)
Total non-operating receipts (disbursements)	<u>64,121</u>	-	<u>64,121</u>
Excess of receipts over disbursements	111,758	-	111,758
Operating transfers in	325	5,700	6,025
Operating transfers out	<u>(5,700)</u>	-	<u>(5,700)</u>
Net change in cash balances	106,383	5,700	112,083
Cash balances beginning of year	<u>213,123</u>	-	<u>213,123</u>
Cash balances end of year	<u>\$ 319,506</u>	<u>5,700</u>	<u>325,206</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	5,700	5,700
Unreserved	<u>319,506</u>	-	<u>319,506</u>
Total cash basis fund balances	<u>\$ 319,506</u>	<u>5,700</u>	<u>325,206</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Fund - Water Department

As of and for the year ended June 30, 2004

	Water Operations & <u>Maintenance</u>	Water <u>Sinking</u>	Water <u>Reserve</u>
Operating receipts:			
Use of money and property:			
Tower rent	\$ -	-	-
Charges for service:			
Sale of water	129,029	-	-
Reconnection fees	175	-	-
	<u>129,204</u>	<u>-</u>	<u>-</u>
Miscellaneous:			
Merchandise and labor sales	692	-	-
Total operating receipts	<u>129,896</u>	<u>-</u>	<u>-</u>
Operating disbursements:			
Business type activities:			
Personal services:			
Salaries and wages	32,068	-	-
FICA - Employer's portion	2,460	-	-
IPERS - Employer's portion	1,840	-	-
Group insurance	5,214	-	-
Uniforms	194	-	-
Workers compensation	1,055	-	-
	<u>42,831</u>	<u>-</u>	<u>-</u>
Services and commodities:			
Advertising and legal publication	474	-	-
Consulting and legal	473	-	-
General insurance	2,878	-	-
Miscellaneous contractual work	8,228	-	-
Postage and shipping	579	-	-
Telephone	674	-	-
Travel and conference	93	-	-
Utility service	11,990	-	-
Dues and memberships	487	-	-
Building and maintenance supplies	350	-	-
Chemicals and testing	1,163	-	-
Minor equipment	950	-	-
Motor vehicle supplies and maintenance	599	-	-
Office supplies	2,164	-	-
Operating supplies and materials	13,743	-	-
Distribution supplies and material	2,805	-	-
	<u>47,650</u>	<u>-</u>	<u>-</u>
Total operating disbursements	<u>90,481</u>	<u>-</u>	<u>-</u>

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Fund - Water Department

As of and for the year ended June 30, 2004

	Water Operations & <u>Maintenance</u>	Water <u>Sinking</u>	Water <u>Reserve</u>
Excess of operating receipts over operating disbursements	<u>39,415</u>	<u>-</u>	<u>-</u>
Non-operating receipts (disbursements):			
Interest on investments	1,383	-	416
Miscellaneous	12,098	-	-
Capital outlay:			
Water plant project	(61,940)	-	-
Debt service:			
Principal payments	-	(36,019)	-
Interest payments	-	(3,762)	-
Total non-operating receipts (disbursements)	<u>(48,459)</u>	<u>(39,781)</u>	<u>416</u>
Excess (deficiency) of receipts over (under) disbursements	(9,044)	(39,781)	416
Operating transfers in	11,651	43,200	12,331
Operating transfers out	<u>(43,200)</u>	<u>(23,882)</u>	<u>-</u>
Net change in cash balances	(40,593)	(20,463)	12,747
Cash balances beginning of year	<u>4,854</u>	<u>23,853</u>	<u>103,996</u>
Cash balances end of year	<u><u>\$ (35,739)</u></u>	<u><u>3,390</u></u>	<u><u>116,743</u></u>
Cash Basis Fund Balances			
Reserved for:			
Debt service	\$ -	3,390	77,499
Improvements	-	-	39,244
Unreserved	<u>(35,739)</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u><u>\$ (35,739)</u></u>	<u><u>3,390</u></u>	<u><u>116,743</u></u>

See accompanying independent auditor's report.

Schedule 3

<u>Water Tower Maintenance</u>	<u>Water Improvement</u>	<u>Total</u>
<u>1,950</u>	<u>-</u>	<u>1,950</u>
3,077	-	132,106
<u>-</u>	<u>-</u>	<u>175</u>
<u>3,077</u>	<u>-</u>	<u>132,281</u>
-	-	692
<u>5,027</u>	<u>-</u>	<u>134,923</u>
-	-	32,068
-	-	2,460
-	-	1,840
-	-	5,214
-	-	194
<u>-</u>	<u>-</u>	<u>1,055</u>
<u>-</u>	<u>-</u>	<u>42,831</u>
-	-	474
-	-	473
-	-	2,878
-	-	8,228
-	-	579
-	-	674
-	-	93
-	-	11,990
-	-	487
-	-	350
-	-	1,163
-	-	950
-	-	599
-	-	2,164
-	-	13,743
<u>-</u>	<u>-</u>	<u>2,805</u>
<u>-</u>	<u>-</u>	<u>47,650</u>
<u>-</u>	<u>-</u>	<u>90,481</u>

(continued)

Schedule 3

<u>Water Tower Maintenance</u>	<u>Water Improvement</u>	<u>Total</u>
<u>5,027</u>	<u>-</u>	<u>44,442</u>
219	-	2,018
-	-	12,098
-	-	(61,940)
-	-	(36,019)
-	-	(3,762)
<u>219</u>	<u>-</u>	<u>(87,605)</u>
5,246	-	(43,163)
-	-	67,182
<u>-</u>	<u>-</u>	<u>(67,082)</u>
5,246	-	(43,063)
<u>18,795</u>	<u>20,000</u>	<u>171,498</u>
<u>24,041</u>	<u>20,000</u>	<u>128,435</u>
-	-	80,889
24,041	20,000	83,285
-	-	(35,739)
<u>24,041</u>	<u>20,000</u>	<u>128,435</u>

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 4

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balance
Proprietary Fund - Sewer Department

As of and for the year ended June 30, 2004

Operating receipts:

Charges for service:

Sewer rental fees

\$ 78,926

Total operating receipts

78,926

Operating disbursements:

Business type activities:

Personal services:

Salaries and wages

28,293

FICA - Employer's portion

2,170

IPERS - Employer's portion

1,624

Group insurance

5,189

Uniforms

194

Workers compensation

951

38,421

Services and commodities:

Advertising and publication

198

Consulting and legal

326

General insurance

1,649

Miscellaneous contractual work

15,470

Postage and shipping

419

Telephone

462

Travel and conference

159

Utility service

4,786

Dues and membership

107

Minor equipment

476

Building and maintenance supplies

852

Motor vehicle supplies and maintenance

586

Office supplies

1,623

Operating supplies and materials

604

Distribution supplies and materials

2,905

30,622

Total operating disbursements

69,043

(continued)

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 4

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balance
Proprietary Fund - Sewer Department

As of and for the year ended June 30, 2004

Excess of operating receipts over operating disbursements	<u>9,883</u>
Non-operating receipts (disbursements):	
Interest on investments	404
Miscellaneous	541
Debt service:	
Share of city bond	<u>(21,000)</u>
Total non-operating receipts (disbursements)	<u>(20,055)</u>
Deficiency of receipts under disbursements	(10,172)
Operating transfers in	<u>75</u>
Net change in cash balances	(10,097)
Cash balance beginning of year	<u>37,151</u>
Cash balance end of year	<u>27,054</u>
Cash Basis Fund Balance	
Unreserved	<u>27,054</u>
Total cash basis fund balance	<u>27,054</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 5

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balance
Proprietary Fund - Garbage Department

As of and for the year ended June 30, 2004

Operating receipts:	
Charges for service:	
Garbage service	\$ 56,320
Total operating receipts	<u>56,320</u>
Operating disbursements:	
Business type activities:	
Services and commodities:	
Miscellaneous contractual work	48,118
Other agency payments	<u>5,726</u>
Total operating disbursements	<u>53,844</u>
Excess of operating receipts over operating disbursements	<u>2,476</u>
Non-operating receipts:	
Interest on investments	<u>25</u>
Excess of receipts over disbursements	2,501
Operating transfer out	<u>(500)</u>
Net change in cash balance	2,001
Cash balance beginning of year	<u>9,712</u>
Cash balance end of year	<u><u>11,713</u></u>
Cash Basis Fund Balance	
Unreserved	<u>11,713</u>
Total cash basis fund balance	<u><u>\$ 11,713</u></u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule of Indebtedness

Year ended June 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Loan payable - Security Savings Bank	4-29-03	2.65%	\$ 150,000
Electric Revenue Note - Security Savings Bank	3-09-04	3.65%	\$ 250,000

See accompanying independent auditor's report.

Schedule 6

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 150,000	-	36,019	113,981	3,762	-
\$ -	250,000	-	250,000	-	-

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 7

Loan and Note Maturities

June 30, 2004

Year Ending <u>June 30,</u>	<u>Loan Payable</u>			<u>Electric Revenue Note</u>			<u>Total</u>
	<u>Issued April 29, 2003</u>			<u>Issued March 9, 2004</u>			
	<u>Interest</u>			<u>Interest</u>			
<u>Rates</u>	<u>Amount</u>	<u>Rates</u>		<u>Amount</u>			
2005	2.65 %	\$ 37,004		3.65 %	19,135		56,139
2006	2.65	37,991		3.65	22,025		60,016
2007	2.65	38,986		3.65	22,843		61,829
2008		-		3.65	23,691		23,691
2009		-		3.65	24,570		24,570
2010		-		3.65	25,482		25,482
2011		-		3.65	26,428		26,428
2012		-		3.65	27,409		27,409
2013		-		3.65	28,426		28,426
2014		-		3.65	29,991		29,991
	Total	<u>\$ 113,981</u>			<u>\$ 250,000</u>		<u>363,981</u>

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 8

Schedule of Insurance Coverage

Year ended June 30, 2004

<u>Insurer</u>	<u>Coverage</u>	<u>Amount</u>
Employers Mutual Casualty Insurance Company (Expires 4-1-2005)	<u>Comprehensive General Liability</u>	\$ 2,000,000/\$2,000,000
	Bodily injury	1,000,000/1,000,000
	Fire damage	100,000
	Medical expense	5,000
	<u>Blanket Building and Personal Property</u>	3,326,970
	<u>Automobile Coverage</u>	
	Bodily injury	1,000,000
	Collision (\$1,000 deductible)	ACV, or cost of repairs
	Comprehensive (\$100 deductible)	ACV, or cost of repairs
	Uninsured motorist	50,000
	Underinsured motorist	50,000
	Medical payments	5,000
	<u>Umbrella Liability</u>	2,000,000/2,000,000
	Retained limit	10,000
	<u>Comprehensive Employee Dishonesty Bond</u>	
	Public employees (\$2,000 deductible)	200,000
	Forgery or alteration (\$250 deductible)	10,000
	<u>Worker's Compensation</u>	500,000
	<u>Board Members and Employees Liability</u>	
	Each loss (\$1,500 deductible)	1,000,000
	Aggregate	1,000,000
	<u>Premise Burglary</u>	
	Inside/outside premises	10,000/10,000
	Premise burglary	15,000
Cincinnati Insurance Company (Expires 4-1-2006)	<u>Boiler Insurance</u>	
	Engines and generators (\$25,000 deductible)	5,000,000

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 9

Electric Department Data

Year ended June 30, 2004

1. Number of customers by rate category (by meters)

Commercial	137
Residential	479
Street lights	30

2. Electricity purchased – 7,982,036 K.W.H.

3. Electricity billed – 7,187,811 K.W.H.

See accompanying independent auditor's report.

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie

Schedule 10

Water Department Data

Year ended June 30, 2004

Number of customers served 492

Water rates:

\$2.75 per 1,000 gallons - \$8.25 minimum plus \$.50 per additional outlet or connection point in one building. (Increased from \$8.25 to \$11.00 effective July 1, 2004)

\$.10 per 1,000 gallons for water tower maintenance.

See accompanying independent auditor's report.

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Trustees of
Gowrie Municipal Utilities
Gowrie, Iowa

We have audited the financial statements of Gowrie Municipal Utilities, a component unit of the City of Gowrie, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated July 30, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Gowrie Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gowrie Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Gowrie Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in item I-A-04 of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Gowrie Municipal Utilities and other parties to whom Gowrie Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Gowrie Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

CORNWELL & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

July 30, 2004

Gowrie Municipal Utilities
A Component Unit of the City of Gowrie
Schedule of Findings
Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Based upon the size of our office staff, duties are segregated to the greatest extent possible.

Conclusion - Response acknowledged. The Utilities should utilize administrative personnel to provide additional control through review of financial transactions and reports.

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories - A resolution naming official depositories has been approved by the Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - The City of Gowrie and Gowrie Municipal Utilities submit a combined budget. Utility disbursements during the year ended June 30, 2004, did not exceed the amounts budgeted.

Gowrie Municipal Utilities

A Component Unit of the City of Gowrie

Schedule of Findings

Year ended June 30, 2004

- II-C-04 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 Travel Expense - No disbursements of Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.
- II-E-04 Business Transactions - No business transactions between the Utilities and Utilities' officials or employees were noted.
- II-F-04 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Board of Trustees Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-H-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-I-04 Revenue Note – The Utilities have complied with the revenue note resolution.
- II-J-04 Sewer Billings – It was noted that some sewer billings from January 1, 2004 on, were incorrectly computed due to a change in the rate computation formula in the computer.

Recommendation – The Utilities should test the billing computation when any rate changes are implemented.

Response – This was an oversight this year. We do check the computation of billings but this particular circumstance was just missed. We corrected the billing formula immediately.

Conclusion – Response accepted.